

We inquired of management and noted which agreements were still in effect as of December 31, 2000. The VADI and VADI-VA agreements that were terminated during the Engagement Period are as follows:

Table 10

VADI and VADI-VA				
No.	Party Receiving Service	Party Providing Service	Type of Service	Expiration Date
1	VADI	Verizon New York	SS001 Reciprocal Billing	Expired on 7/01/00
2	VADI	Verizon East	SS002 Functional Equivalency (for Order Entry Processing)	Expired on 7/01/00
3	VADI	Verizon East	SS002.1 Amendment #1 to Functional Equivalency Agreement – Adds additional lines of business & changes billing rate	Expired on 7/01/00
4	VADI	Verizon East	SS002.2 Amendment #2 to Functional Equivalency Agreement – Adds Rates	Expired on 7/01/00
5	VADI	Verizon East	SS003 Network Planning	Expired on 6/30/00 (except for NJ)
6	VADI	Verizon West	SS003.1 Amendment #1 to Network Planning Agreement – Adds GTE ILECs as parties	Expired on 12/31/00 (except for CA & HI)
7	VADI	Verizon New York	SS004 Amendment #1 to SS001 Reciprocal Billing – Corrects billing rates	Expired on 7/01/00
8	VADI	Verizon New York	SS004.1 Amendment #2 to SS001 and SS004 – Changes billing from monthly to per widget rates	Expired on 7/01/00
9	VADI	Verizon New York	SS004.2 Amendment #3 to SS001, SS004 and SS004.1 – Replaces all pricing to a retail/wholesale split	Expired on 7/01/00
10	VADI	Verizon East	SS005 Joint Marketing & Customer Care	Expired on 7/01/00
11	VADI	Verizon East	SS005.1 Amendment #1 to Joint Marketing	Expired on 7/01/00

VADI and VADI-VA				
No.	Party Receiving Service	Party Providing Service	Type of Service	Expiration Date
			and Customer Care Agreement – Changes rates to “To Be Developed” and removes training services	
12	VADI	Verizon East	SS007 Access to Advanced Services Equipment (“Resale Agreement”)	Expired on 7/01/00
13	VADI	Verizon New York	SS008 Interim CABS Billing & Collections	Expired on 7/01/00
14	VADI	Verizon New York	SS008.1 Amendment #1 to Interim CABS Billing & Collections Agreement - Extends term and removes “rates change” elements	Expired on 9/1/00
15	VADI	Verizon New York	SS008.2 Amendment #2 to Interim CABS Billing & Collections Agreement - Extends term	Expired on 12/31/00
16	VADI	Verizon New York & Verizon New England	SS008.3 Amendment #3 to Interim CABS Billing & Collections Agreement - Adds Verizon New England as a party	Expired on 12/31/00
17	VADI	Verizon East	SS009 Network Testing	Expired on 12/31/00 (except for NJ)
18	VADI	Verizon East	SS010 Joint Marketing Training	Expired on 12/31/00 (except for NJ)
19	VADI	Verizon East	SS010.1 Amendment #1 to Joint Marketing Training Agreement - Adds Verizon-Massachusetts and Verizon-NH personnel & real estate in MD, NY, Massachusetts	Expired on 12/31/00 (except for NJ)
20	VADI	Verizon East	SS010.2 Amendment #2 to Joint Marketing Training Agreement - Adds additional personnel for Verizon	Expired on 12/31/00 (except for NJ)

VADI and VADI-VA				
No.	Party Receiving Service	Party Providing Service	Type of Service	Expiration Date
			Massachusetts, Verizon New Jersey, Verizon Pennsylvania, Verizon Virginia, and West Virginia	
21	VADI	Verizon East	SS011 Operations & Maintenance	Expired on 8/01/00
22	VADI	Verizon East	SS013 VADI Lease of Data Network Management System (DNMS) to Verizon New England	Expired on 12/03/00
23	VADI	Verizon Services Group	SS013.1 Amendment #1 to SS013 – Replaces "To Be Developed" rates with the exception Of routers	Expired on 12/03/00
24	VADI	All ILECs	SS015 Functional Equivalency and Reciprocal Billing	Expired on 12/31/00 (except for NJ, CA, & HI)
25	VADI	All ILECs	SS015.1 Amendment #1 to SS015 – Adds rates and splits them into retail/wholesale	Expired on 12/31/00 (except for NJ, CA, & HI)
26	Verizon-South	VADI-VA	SS017.1 Database Outsourcing	Expired on 12/19/00
27	Verizon-VA	VADI-VA	SS017.2 Database Outsourcing	Expired on 12/19/00
28	VADI-VA	Verizon-East	SS018 Network Testing	Expired on 12/27/00
29	Verizon-East	VADI	Work Stoppage Agreement	Expired on 11/14/00
30	VADI	Verizon West Virginia, Verizon Maryland, Verizon New Jersey & Verizon Washington DC	NorthPoint Contract – for loaned employees	Expired on 11/29/00
31	VADI	Verizon South	Interstate Asset Purchase Agreement	Expired on 12/30/2000
32	VADI	Verizon South	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
33	VADI	Verizon Delaware	Asset Purchase Agreement	Expired on 12/30/2000
34	VADI	Verizon Washington DC	Asset Purchase Agreement	Expired on 12/30/2000
35	VADI	Verizon Florida	Interstate Asset Purchase Agreement	Expired on 12/30/2000

VADI and VADI-VA				
No.	Party Receiving Service	Party Providing Service	Type of Service	Expiration Date
36	VADI	Verizon Florida	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
37	VADI	Verizon Hawaii	Interstate Asset Purchase Agreement	Expired on 12/30/2000
38	VADI	Verizon Hawaii	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
39	VADI	Verizon Northwest	Interstate Asset Purchase Agreement	Expired on 12/30/2000
40	VADI	Verizon Northwest	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
41	VADI	Verizon North	Interstate Asset Purchase Agreement	Expired on 12/30/2000
42	VADI	Verizon North	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
43	VADI	Verizon North	Interstate Asset Purchase Agreement	Expired on 12/30/2000
44	VADI	Verizon North	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
45	VADI	Verizon South	Interstate Asset Purchase Agreement	Expired on 12/30/2000
46	VADI	Verizon South	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
47	VADI	Verizon Maine	Asset Purchase Agreement	Expired on 12/30/2000
48	VADI	Verizon Maine	Asset Purchase Agreement Amendment #1	Expired on 12/30/2000
49	VADI	Verizon Maryland	Asset Purchase Agreement	Expired on 12/01/2000
50	VADI	Verizon Massachusetts	Asset Purchase Agreement	Expired on 12/27/2000
51	VADI	Verizon North	Interstate Asset Purchase Agreement	Expired on 12/30/2000
52	VADI	Verizon North	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
53	VADI	Verizon Midwest	Interstate Asset Purchase Agreement	Expired on 12/30/2000
54	VADI	Verizon Midwest	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
55	VADI	Verizon California	Interstate Asset Purchase Agreement	Expired on 12/30/2000
56	VADI	Verizon California	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
57	VADI	Verizon New Hampshire	Asset Purchase Agreement	Expired on 12/27/2000
58	VADI	Verizon South	Interstate Asset	Expired on 12/30/2000

VADI and VADI-VA				
No.	Party Receiving Service	Party Providing Service	Type of Service	Expiration Date
			Purchase Agreement	
59	VADI	Verizon South	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
60	VADI	Verizon North	Interstate Asset Purchase Agreement	Expired on 12/30/2000
61	VADI	Verizon North	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
62	VADI	Verizon Northwest	Interstate Asset Purchase Agreement	Expired on 12/30/2000
63	VADI	Verizon Northwest	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
64	VADI	Verizon North	Asset Purchase Agreement	Expired on 11/09/2000
65	VADI	Verizon North	Interstate Asset Purchase Agreement	Expired on 12/30/2000
66	VADI	Verizon North	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
67	VADI	Verizon South	Interstate Asset Purchase Agreement	Expired on 12/30/2000
68	VADI	Verizon South	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
69	VADI	Verizon Southwest	Interstate Asset Purchase Agreement	Expired on 12/30/2000
70	VADI	Verizon Southwest	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
71	VADI	Verizon Virginia	Asset Purchase Agreement	Expired on 12/30/2000
72	VADI	Verizon South	Interstate Asset Purchase Agreement	Expired on 12/30/2000
73	VADI	Verizon South	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
74	VADI	Verizon Northwest	Interstate Asset Purchase Agreement	Expired on 12/30/2000
75	VADI	Verizon Northwest	Asset Purchase Agreement Intrastate	Expired on 12/30/2000
76	VADI	Verizon West Virginia	Intrastate Asset Purchase Agreement	Expired on 12/01/2000
77	VADI	Verizon West Virginia	Interstate Asset Purchase Agreement	Expired on 12/15/2000
78	VADI	Verizon North	Interstate Asset Purchase Agreement	Expired on 12/30/2000
79	VADI	Verizon North	Intrastate Asset Purchase Agreement	Expired on 12/30/2000
80	VADI	Verizon East	Asset Transfer - Source Licenses Agreement	Expired on 12/31/2000

VADI and VADI-VA				
No.	Party Receiving Service	Party Providing Service	Type of Service	Expiration Date
81	VADI	Verizon East	Amendment #1 to the Asset Transfer - Source Licenses Agreement	Expired on 12/31/2000
82	VADI	Verizon West	Asset Transfer – Source Licenses Agreement	Expired on 12/31/2000
83	VADI	Verizon Washington DC	Verizon Washington DC Master Asset Purchase Agreement	Expired on 07/01/2000
84	VADI	Verizon Washington DC, Verizon Delaware, Verizon Maryland, Verizon New Jersey, Verizon Pennsylvania, Verizon Virginia, Verizon West Virginia, Verizon New England	Amendment No. 1 to Master Asset Purchase Agreement	Expired on 07/01/2000

The VSSI agreements that were terminated as of December 31, 2000 are as follows:

Table 11

VSSI				
No.	Party Providing Service	Party Receiving Service	Type of Service	Expiration Date
1	Verizon-North	VSSI	Interconnection (Resale) Agreement – Wisconsin	Expired on 9/29/2000
2*	Verizon Midwest	VSSI	Interconnection Agreement – Iowa	Expired on 6/2000
3*	Verizon Minnesota	VSSI	Interconnection Agreement – Minnesota	Expired on 8/31/2000
*Management indicated that no services were provided under agreements 2 or 3.				

We inquired of management and management indicated that no agreements were terminated prematurely for the separate Advanced Services affiliates. We inquired of management and management indicated that Verizon's policy is to provision services to the separate Advanced Services affiliate only with written agreements.

5. We inquired of management and management indicated that interconnection agreements between the separate Advanced Services affiliates and the ILECs have been publicly disclosed, including prices, discounts, terms and conditions.

For VADI and VADI-VA, we inquired of management and management indicated that the process used to publicly disclose interconnection agreements is to file them with the appropriate state regulatory agency. Upon approval by the state regulatory agency, the agreement becomes a public record. For the states that issue state filing letters (all states in which Verizon has established ILECs

except for New Hampshire, Massachusetts, and Ohio), we obtained the filing letters and determined, by inspection, that the interconnection agreements between VADI, VADI-VA and the ILECs have been publicly disclosed with the appropriate state commissions. For Nevada, the Company was unable to provide a state filing letter, but management indicated that the Nevada interconnection agreement is publicly disclosed on the Nevada Public Utilities Commission web page at <http://puc.state.nv.us/admin/intagree.htm#gte>. For the states that do not issue state filing letters (New Hampshire, Massachusetts, and Ohio), management indicated that, under state law, state commissions have 90 days to act upon the request, and if there is no action within 90 days, the agreement is deemed approved. We obtained the interconnection agreements for these states, and management indicated that the agreements have been deemed approved as there was no action by the state commissions within 90 days.

For VSSI, we inquired of management and management indicated that the process used to publicly disclose interconnection agreements was to post such agreements on VSSI's affiliate agreement website at <http://www.gte.com/AboutGTE/272s/index.html>. We inspected the website and noted that the interconnection agreements were posted.

6. VADI/VADI-VA

From the agreements obtained in Objective V/VI, Procedure 4, we randomly selected 25 VADI and VADI-VA non-interconnection affiliate agreements and the Specified Users selected 3 interconnection agreements. We compared the rates, terms and conditions of services on the web postings (at www.banetworkdata.com) to the non-interconnection written agreements and noted the following:

- Rates, terms and conditions for 19 of the 25 web postings were agreed to the written agreements with no exceptions;
- 6 of the 25 web postings contained discrepancies as compared to the written agreements. Management indicated the discrepancies occurred as a result of administrative errors. The discrepancies between the web postings and the written agreements, which are included in the table below, fall into one of the following categories:
 - differences between the effective date on the web postings and those on the written agreements;
 - differences between the parties on the web postings and those on the written agreements

Table 12

No.	Affiliate	Contract	Differences
1	VADI to Bell Atlantic New York	Master Services Agreement, SS002.2	1. The effective date is not listed on the written agreement but is listed on the web posting as 10/31/00. 2. Receiving and Providing Parties were reversed on the web posting.
2	VADI to Bell Atlantic New York	Master Services Agreement, SS004	The effective date is not listed on the written agreement but is listed on the web posting as 4/14/00.

No.	Affiliate	Contract	Differences
3	VADI to Bell Atlantic New York	Master Services Agreement, SS004.2	The effective date is not listed on the written agreement but is listed on the web posting as 10/31/00.
4	VADI to Bell Atlantic New England	Use of VADI DNMS, Amendment No. 1, SS013	1. The effective date on the web posting (12/14/00) does not agree to the effective date on the contract (7/1/00). 2. Web posting reflected an incorrect name for VADI (i.e., Verizon Network Data, Inc.)
5	VADI to Bell Atlantic New England	Use of VADI DNMS, Amendment #1, SS014.1	The effective date is not listed on the written agreement but is listed on the web posting as 12/14/00.
6	Verizon Maryland, Verizon New York, Verizon Washington DC to VADI	Network Systems Testing, SS018	The parties on the web posting (VADI & Verizon Maryland, Verizon New York, Verizon Washington DC) do not agree to the parties on the contract (VADI & VADI-VA & Verizon Verizon Maryland, Verizon New York, Verizon Washington DC).

Management indicated that VADI and VADI-VA's policy for interconnection agreements is to file them with the state regulatory agency instead of posting them on the web, as allowed by the Advanced Services Merger Conditions. Therefore, we were unable to perform this procedure for interconnection agreements.

We obtained a list of locations where the agreements are made publicly available. We physically inspected the 25 non-interconnection agreements to determine whether the same information was made available for public inspection at the principal place of business of the ILECs and noted the following:

- A list of assets, categorized as "Hardware" and "Plugins", with a total transfer price of \$42,370,154 was not included in the Massachusetts Asset Purchase Agreement, between VADI and Verizon Massachusetts, available for physical inspection;
- One agreement for Billing and Collection Services between VADI and Verizon New York and New England was not made available in the Boston, MA office where the inspection was performed. Management indicated that the agreement specifies that the service is provided by Verizon New York, therefore, the agreement may only be viewed in New York.

For the 3 interconnection agreements, we did not physically inspect these agreements at the principal place of business of the ILECs. Management indicated that interconnection agreements are publicly

disclosed by filing them with the appropriate state regulatory agency. Upon approval by the state regulatory agency, the agreement becomes a public record. We obtained the filing letters and determined by inspection that the interconnection agreements in Alabama, New Hampshire, and Virginia were publicly disclosed with the appropriate state commissions.

The Company made no claims of confidentiality for nondisclosure.

We inquired of management and documented the procedures VADI has in place for posting transactions on a timely basis. As indicated on the Company's websites, <http://www.banetworkdata.com/process.html> and <http://www.gte.com/AboutGTE/272s/index.html>, the Company has several employees, including the VADI Web Posting Employee and the VADI Contract Administrator, whose functions are to ensure that postings are made on a timely basis. Management indicated that the following is the process to ensure that postings are made on a timely basis:

- Separate Advanced Services affiliates' lead negotiator prepares the web transactional page which describes the transaction.
- Separate Advanced Services affiliates' contract administrator verifies the web transactional page to coordinate distribution of posting material.
- The web transactional page is posted by the separate Advanced Services affiliates.
- To ensure process compliance and timely posting, the web transaction pages are reviewed by the Separate Advanced Services affiliates' contract administrator to ensure that no web transaction pages are missing. If any web transactional pages are noted missing, the Separate Advanced Services affiliate contract administrator notifies the lead negotiator, web posting employee, and the Affiliate Legal and Federal Regulatory team.

For the 25 selected agreements, we compared the posting dates listed on the website to the effective dates of the contracts and noted that two web postings were not posted within the required ten calendar days. Management indicated the web postings were not posted within the required period as the result of an administrative error. The postings are summarized in the table below:

Table 13

No.	Affiliate	ILEC	Contract	Timing Difference*
1	VADI	Verizon New England	Master Service Agreement, SS012	10 days
2	VADI	Verizon Southwest Verizon Florida Verizon Midwest Verizon South Verizon North	Maintenance of Customer Premises Equipment, SS022	17 days

*Number of days beyond 10 calendar days when the web site was posted.

We inspected and noted that six web postings did not contain some of the required disclosures necessary for posting. Management indicated the omissions of data occurred as a result of an administrative error and that the omissions were corrected as of June 12, 2001. The omissions are included in the table below:

Table 14

No.	Affiliate	Contract	Omissions
1	VADI to Bell Atlantic New York	Master Services Agreement, SS004	The disclosure related to the terms for the FDC vs. EFMV rates were omitted from the posting.
2	VADI to Bell Atlantic New York	Master Services Agreement, SS004.1	The disclosure related to the terms for the FDC vs. EFMV rates were omitted from the posting..
3	VADI to Bell Atlantic New York	Master Services Agreement, SS004.2	The disclosure related to the terms for the FDC vs. EFMV rates were omitted from the posting.
4	Bell Atlantic New England to VADI	Master Services Agreement, SS012	The disclosure related to the terms for the FDC vs. EFMV rates were omitted from the posting.
5	VADI to Verizon East	Emergency Work Stoppage	The disclosure related to the terms for the FDC vs. EFMV rates were omitted from the posting.
6	Verizon East to VADI and VADI-VA	Asset Transfer Agreement, Amendment No. 2	The web posting does not explicitly display that only one of each source license was granted.

VSSI

For 12 VSSI affiliate agreements selected by the Specified Users, we compared the rates, terms and conditions of services on the web postings (at www.gte.com) to the written agreements. One of the selected agreements was not included on the website as management indicated that VSSI was not a party to the agreement during the Engagement Period and the agreement was erroneously included in the population of agreements for this procedure. This was the Advanced Services Agreement. We compared the remaining 11 agreements to the web postings and noted the following:

- Rates, terms and conditions for 8 of the 11 web postings were agreed to the written agreements with no exceptions;
- 3 of the 11 web postings contained discrepancies as compared to the written agreements. Management indicated the discrepancies occurred as a result of administrative errors. The discrepancies between the web postings and the written agreements, which are included in the below table, are categorized as follows:
 - services listed on the web postings were not included in the written agreements;
 - difference between the effective date on the web posting and the effective date on the written agreement;

Table 15

No.	Affiliate	Contract	Difference
1	Verizon West to VSSI	Billing Services Agreement	Two services and their rates were listed on the web posting but were not noted in the written agreement. These

No.	Affiliate	Contract	Difference
			services were “monthly minimum per CIC per GTE area” for \$6,000 and “multiple CIC – start-up all GTE areas” for \$36,000.
2	Verizon West to VSSI	Software License Agreement	The effective date is not listed on the written agreement, but is listed on the web posting as June 30, 1998.
3	Verizon West to VSSI	Wholesale Service Agreement	Two services and their rates were listed on the web posting but were not noted in the written agreement. These services were “single line ext. mailbox 1 st ” for \$14.95 and “enhanced mailbox – 100 message cap” for \$15.00.

We obtained a list of locations where the agreements are made publicly available. We physically inspected the 12 agreements to determine whether the same information was made available for public inspection at the principal place of business of the ILECs and noted the following:

- 11 of the 12 agreements were available for public inspection;
- As indicated above, the web posting for one agreement was not available. Management indicated that the agreement was incorrectly included in the population and that VSSI was not a party to the agreement during the Engagement Period.

The Company made no claims of confidentiality for nondisclosure.

We inquired of management and documented the procedures VSSI has in place for posting transactions on a timely basis. As indicated on the Company’s websites, <http://www.banetworkdata.com/process.html> and <http://www.gte.com/AboutGTE/272s/index.html>, the Company has several employees, including the VSSI Web Posting Employee and the VSSI Contract Administrator, whose functions are to ensure that postings are made on a timely basis. Management indicated that the following is the process to ensure that postings are made on a timely basis:

- Separate Advanced Services affiliates’ lead negotiator prepares the web transactional page which describes the transaction.
- Separate Advanced Services affiliates’ contract administrator verifies the web transactional page to coordinate distribution of posting material.
- The web transactional page is posted by the Separate Advanced Services affiliates.
- To ensure process compliance and timely posting, the web transaction pages are reviewed by the Separate Advanced Services affiliates’ contract administrator to ensure that no web transaction pages are missing. If any web transactional pages are noted missing, the Separate Advanced Services affiliate contract administrator notifies the lead negotiator, web posting employee, and the Affiliate Legal and Federal Regulatory team.

For the 12 selected agreements, we compared the posting dates listed on the website to the effective dates of the contracts and noted that three web postings were not posted within the required ten calendar days. Management indicated the web postings were not posted within the required period as the result of an administrative error. The postings are summarized in the table below:

Table 16

No.	Affiliate	ILECs	Contract	Timing Difference*
1	VSSI	All ILECs	National Transport Network Agreement	1 day
2	VSSI	All ILECs	Operator Assistance Agreement	32 days
3	VSSI	Verizon West	Sales Agency Agreement, Amendment No. 1	51 days

*Number of days beyond 10 calendar days when the web site was posted.

We inspected and noted that one web posting did not contain some of the required disclosures necessary for posting. Management indicated the omission of data occurred as a result of an administrative error and was corrected on June 6, 2001. The omission is included in the below table:

Table 17

No.	Affiliate	ILECs	Contract	Omission
1	VSSI	All ILECs	Sales Agency Agreement	The listing of services and rates, including number, type and level of personnel, was listed as "To Be Developed".

7. We obtained a list and description of any software and/or licenses transferred from the ILECs to VADI and VADI-VA. We inspected and documented that these transfers have been posted to the Internet and documented the website where this information is located. The list of items transferred and the related websites are as follows:

- <http://banetworkdata.com/contracts/Verizon-ERTUAmend2.htm>
 - Vericheck
 - CTT
 - Throughput Server
 - DNMS
 - Netway CSM
 - Frame Relay Notes Database
- <http://banetworkdata.com/contracts/Verizon-E-RTU-ATAmend.htm>
 - CABS – South
- <http://banetworkdata.com/contracts/Verizon-W-RTU-AT.htm>
 - Enterprise Production Group Tools Pro
 - Private Virtual Circuit Stat
 - DSL Stats
 - Enhanced Products Information Stats
 - NECA-PARSES NECA and LERQ Data

- Jurisdictional Plans
- Broadband Automated Assignments and Inventory
- Tariff Information Management Systems
- Central Office Engine Model

We inquired of management and management indicated that there were no transfers of any software or licenses from the ILECs to VSSI.

8. For nontariffed services and for services for which a prevailing market price ("PMP") has not been established, or which are not subject to agreements filed with a public service commission, we documented the ILECs' and the separate Advanced Services affiliates' process for developing fully distributed cost ("FDC"). Management indicated that the entity providing the service is responsible for gathering the information required to develop the FDC calculation. Examples of the types of information that an entity providing the service should provide include a detailed description of the product or service being provided, the job function code or titles of the employees involved, the number of employees in each job function or title, the building location and floor space used by these employees, any computer systems utilized, vendor or outside contractor costs, or any special equipment or supplies purchased. This information is forwarded to the Verizon Service Costs Department (a department of Verizon Service Corp. ("NSI") and Verizon Service Group "TRG"), which calculates FDC.

We inquired of management and identified and documented the types of costs included in FDC. These costs include direct costs, indirect costs, and overhead loadings.

For two services provided by the ILECs to VADI, we obtained and documented the actual development of FDC. These services included Network Testing and Trouble Referrals.

The FDC for Network Testing, provided to VADI by Verizon East, included the following types of costs:

- direct salary and wage costs
- network salary and wage costs
- other employee expenses – includes miscellaneous employee related expenses (travel, lodging, training, tuition, relocation and supplies) and other miscellaneous expenses (miscellaneous rents, official communications costs, other communications costs, non-project hardware and software costs, and other incidental expenses)
- maintenance and software costs
- pension and benefit costs
- asset carrying charge (including return on investment)

The FDC for Trouble Referrals, provided to VADI by all ILECs, included the following types of costs:

- average base salaries
- pension and benefit costs
- shared asset expenses
- social security taxes
- corporate overheads – includes salary awards, executive and planning, accounting and finance, external relations, human resources, information management, legal, procurement, research and development, general and administrative, and provisioning
- investment related/supporting costs – includes return on investment (ROI), income tax on ROI, property tax, depreciation and amortization expense, and maintenance

For the one service provided by VADI to Verizon South and Verizon Virginia, we obtained and documented the actual development of FDC. This service was Database Outsourcing. Management indicated that this service was contracted by VADI through TRG because VADI does not provide this service internally. As a service company, TRG bills all affiliates at fully distributed cost ("FDC"). TRG billed VADI for the programming charges related to this service, and VADI, in turn, charged the same amount to the ILEC. TRG's calculation of FDC includes the following types of costs:

- direct labor
- benefit costs
- incentive costs (Special Incentive Plan and Special Pay)
- employee related costs (which includes training, office supplies and relocation)
- project related costs (technical overhead support)

For two services provided by the ILECs to VSSI, we obtained and documented the actual development of FDC. These services included Service Order Processing and Call Center Management.

FDC for Service Order Processing, provided to VSSI by Verizon Southwest, included the following types of costs:

- direct labor costs
- general and administrative overhead charge (including finance, legal, human resources, public affairs, treasury, accounting, regulatory, and data processing)
- shared asset charge (including return on investment)
- loading charge for insurance costs, pension costs, and taxes
- order processing charge (including return on investment)

FDC for Call Center Management, provided to VSSI by Verizon Southwest, included the following types of costs:

- average salary costs
- general and administrative overhead charge (including finance, legal, human resources, public affairs, treasury, accounting, regulatory, and data processing)
- shared asset charge (including return on investment)
- loading charge for insurance costs, pension costs, and taxes

For two services provided by VSSI to the ILECs, we obtained and documented the actual development of FDC. These services included Network Management and Marketing and Selling.

FDC for Network Management, provided by VSSI to Verizon North, included the following types of costs:

- Network Costs (including network purchases, management center charges, and access charges)
- Administrative Overhead (including return on investment)
- Manager/Contingency Costs

FDC for Marketing and Selling, provided by VSSI to the ILECs, included only direct costs. Management indicated that the only marketing and selling program in 2000 was toll optimization and the cost that VSSI charges the ILECs is the actual charge that VSSI pays the third party vendor. Management also indicated that VSSI's involvement is minimal, therefore, there are no indirect costs, overhead, or return on investment associated with this service.

9. For nontariffed services for which a PMP has not been established, or which are not subject to agreements filed with a public service commission, we inquired of management and documented the process the ILECs and the Separate Advanced Services affiliates follow to make good faith estimates of fair market value ("FMV"). Management indicated that a good faith determination of the fair market value requires the use of methods that are routinely used by the general business community. Examples of general business methods for obtaining fair market valuations include independent valuations such as appraisals, the use of catalogs listing similar items, competitive bids, the replacement cost of an asset, and the net realizable value of an asset. Additionally, the Company periodically engages unaffiliated entities to perform fair market valuations.

The entity providing the good, service, or transferring the asset is responsible for obtaining a fair market value for all associated costs. The entity develops a detailed description of the goods, services or assets involved, and provides any additional information required by an independent firm to further assist in the valuation of the goods, services or assets being valued.

For two services provided by the ILECs to VADI, we obtained and documented the actual development of FMV. These services included Installation and Repair of DSL Premise Equipment and Interim Loaned Employees.

- The FMV for the Installation and Repair of DSL Premise Equipment, provided to VADI by Verizon West, was developed from elements of an existing product offering, industry benchmarking and historical data. This involved obtaining a quote from a third party vendor, as well as the use of qualitative and quantitative analyses.
- The FMV for Interim Loaned Employees, provided to VADI by Verizon Services Corp. on behalf of Verizon East (excluding West Virginia and Delaware), was developed from hourly rate information provided by external firms for comparable job positions.

For two services provided by VADI to the ILECs, we obtained and documented the actual development of FMV. These services included Technical Services and Database Outsourcing.

- The FMV for Technical Services, provided by VADI to Verizon New England, was developed by a third party vendor based upon the equipment, technical specifications, year placed and original cost for the technical services in question.
- The FMV for Database Outsourcing (Service Order Processing), provided by VADI to Verizon South and Verizon Virginia, was derived from two external vendors. One provided the hourly FMV rates used for Verizon South and the other provided the hourly FMV rates used for Verizon Virginia.

For two services provided by the ILEC to VSSI, we obtained and documented the actual development of FMV. These services included Routing and Rating Database Maintenance and Voice Messaging. The FMV calculations are as follows:

- The FMV for Routing and Rating Database Maintenance, provided to VSSI by Verizon West, was developed by benchmarking this service against a third party vendor. The specific transaction fee was benchmarked against this vendor's current rates, and an additional annual flow-through charge was added to arrive at the final transaction-specific rate.

- The FMV for Voice Messaging, provided to VSSI by Verizon West, was developed using non-discounted retail rates obtained from the in-house retail group. The rates were used to construct discounted prices for various term and volume commitments. Management indicated that the ILECs' retail offering of voice messaging is the dominant offering of the product in the franchise area and, therefore, is representative of the retail market price.

For the one service provided by VSSI to the ILEC at FMV, Prepaid Calling Cards, we obtained and documented the actual development of FMV. The FMV, provided by VSSI to GTE Services Corp. d/b/a Verizon Services Group on behalf of itself and its affiliates, which includes the former GTE ILECs, was developed by reference to actual sales to third party vendors.

10. We obtained a listing and amounts of all services rendered by month by each ILEC to VADI. We identified services made available to VADI that are not made available to third parties. The original sample selected by the Specified Users contained 11 transactions. However, Management indicated that one of the transactions, "Programming Costs", was made available to third parties and that it was erroneously included in the population. This service was provided by Verizon Virginia, Inc. in the amount of *****proprietary**** for December 2000. We therefore performed this procedure for 10 of the 11 transactions selected by the Specified Users. For this sample of 10 transactions selected by the Specified Users, we obtained unit charges of FDC and FMV, as appropriate, to determine whether the costs for these transactions were recorded in the books of the ILECs at the higher of FDC or FMV in accordance with the affiliate transactions standards. We noted the following:
 - For 1 of the 10 transactions, we noted that the FMV unit rate was the same as the FDC unit rate. This transaction was for West Functional Equivalency provided by Verizon California in the amount of *****proprietary**** for December 2000. Management indicated that, because the unit rate represents the cost for legacy systems, which are unique to Verizon-West with no comparable third party services, they were unable to obtain an equitable comparison within the market. Management indicated that, in such circumstances, the FDC rate is used to bill transactions.
 - For 1 of the 10 transactions, 3 of the 26 rate components used to arrive at the billing total were billed at FDC, which was lower than FMV. This transaction was for Network Planning provided by Verizon North in the amount of *****proprietary**** for November 2000. These rate components were as follows:

Table 18

Service	Job Title	FDC	FMV
Engineering Design	Designer – Network	\$36.68	\$44.08
Fulfillment & Billing	Specialist – Ordering	\$39.54	\$43.04
Retail	Marketing Manager	\$47.98	\$50.07

- For 2 of the 10 transactions, we noted that the ILEC billed and recorded an amount other than FDC or FMV. One transaction was for rent at 185 Franklin Street provided by Verizon New England in the amount of *****proprietary**** for September 2000. The other transaction was for rent at 1095 Avenue of the Americas provided by Verizon New York in the amount of *****proprietary**** for October 2000. The correct billing amounts for these transactions should have been *****proprietary**** and *****proprietary****. Management indicated that the amounts were incorrectly billed based upon the square footage covered by the leases, and true ups were made in November 2000 to reflect the correct billings.

We documented the amounts recorded by the ILEC and noted that, for 9 of the 10 transactions, these amounts agreed to the amounts recorded by VADI with the exception of the following:

- For 1 of the 10 transactions, we noted that the amount billed and recorded by the ILEC was duplicated. This transaction was for rent at 185 Franklin Street provided by Verizon New England in the amount of *****proprietary**** for September 2000. An adjustment was recorded in November 2000 to reflect the correct billing and receivable. We noted that VADI recorded and paid this transaction once.

We documented the amounts VADI recorded for the services in its books of record. We also documented the amount VADI paid the ILECs for the services. The amounts recorded were the same as the amounts paid for all but one transaction. This transaction was for West Functional Equivalency provided by Verizon California in the amount of *****proprietary**** for December 2000. Management indicated that VADI had not received the invoice for this service as of May 31, 2001 due to an incorrect mailing address. This service was accrued by VADI in its books of record but was not paid as of May 31, 2001. The error was corrected and this invoice has been resent to VADI.

We obtained a listing and amounts of all services rendered by month by each ILEC to VSSI. We identified services made available to VSSI that were not made available to third parties. For a sample of 6 transactions selected by the Specified Users, we obtained unit charges of FDC and FMV, as appropriate, and determined that the costs for these transactions were recorded in the books of the ILECs at the higher of FDC or FMV in accordance with the affiliate transactions standards. We documented the amounts VSSI recorded for the transactions in its books of record. We also documented the amounts VSSI paid for the transactions to the ILECs. The amounts recorded were the same as the amounts paid for all transactions

11. We obtained a listing of all services rendered by month to each ILEC by VADI. For a sample of 3 transactions selected by the Specified Users, we obtained unit charges of PMP, FDC, or FMV, as appropriate, to determine that the costs for these transactions were recorded in the books of the ILECs in accordance with the affiliate transactions standards. For two of the three transactions, the FMV unit rate was the same as the FDC unit rate for three of the five rate components. One transaction was for Functional Equivalency provided to Verizon Hawaii in the amount of *****proprietary**** for November 2000. The other transaction was for Functional Equivalency provided to Verizon California in the amount of *****proprietary**** for November 2000 (incorrectly listed as December in the original population). Management indicated that, because the unit charge represents the cost for legacy systems, which are unique to Verizon-West with no comparable third party services, they were unable to obtain an equitable comparison within the market. Management indicated that, in such circumstances, the FDC rate is used to bill transactions.

We documented the amounts that each ILEC recorded for the services noted above in its books of record. We also documented the amounts each ILEC paid for the services to VADI. We noted the following:

- 2 of the 3 transactions were recorded as an accrued expense in the books of record of the ILEC. One transaction was for Functional Equivalency provided to Verizon Hawaii in the amount of *****proprietary**** for November 2000. The other transaction was for Functional Equivalency provided to Verizon California in the amount of *****proprietary**** for November 2000 (incorrectly listed as December in the original population). Management indicated that these services were scheduled to be paid by the ILECs in the accounting month of May 2001.
- For one service, we were unable to trace the amount recorded in the ILEC's books to the amount paid by the ILEC since the amount was settled through the Network Service Inc. ("NSI") monthly cash settlement process, which records the entries in batches. Management indicated that the

batch detail was not available. This transaction was for DSL Service Order Processing provided to Verizon New York in the amount of *****proprietary**** for July 2000.

We obtained a listing of all services rendered by month to each ILEC by VSSI. For a sample of six transactions selected by the Specified Users, we obtained unit charges of PMP, FDC, or FMV, as appropriate, to determine that the costs for these transactions were recorded in the books of the ILECs in accordance with the affiliate transactions standards. We noted the following:

- For 1 of the 6 transactions, we were unable to obtain the FMV unit charge; therefore, we were unable to determine whether the transaction was recorded in the books of the ILEC at the lower of FDC and FMV in accordance with the affiliate transactions standards. Management indicated that the FMV was not available because the service was a new offering within the industry. This service was PIC Management, provided to Verizon North, in the amount of *****proprietary**** for July 2000. We obtained the FDC calculation for this service and noted the amount on the FDC calculation was *****proprietary****.
- For 2 of the 6 transactions, we were unable to obtain the FMV unit charges. Therefore, we were unable to determine whether the transaction was recorded in the books of the ILEC at the lower of FDC and FMV in accordance with the affiliate transactions standards. This service was Network Transport provided to Verizon California in the amount of *****proprietary**** for October 2000 and to Verizon South in the amount of *****proprietary**** for November 2000.
- For 2 of the 6 transactions, we were unable to map the unit charge to the total billing amount; therefore, we were unable to determine whether the transaction was recorded in the books of the ILECs at the lower of FDC and FMV in accordance with the affiliate transactions standards. This service was for Official Company Long Distance provided to Verizon Southwest in the amount of *****proprietary**** for August 2000 and to Verizon Florida in the amount of *****proprietary**** for September 2000.

We documented the amounts that each ILEC recorded and paid for the services noted above in its books of record. We noted the following:

- For the Network Transport service, we were unable to trace the amount recorded and paid by the ILEC to the amount selected. Management indicated that the entry and payment included amounts in arrears and that the amount selected was included in this total amount. The amount recorded and paid by the ILEC was *****proprietary****.
12. We inquired of management and documented how and which company maintained the separate Advanced Services affiliates' employee benefit plans. We noted that Verizon maintained the following employee benefit plans for its employees: medical, dental, life, long term disability, pension, and savings. The employee benefit plans were administered by the Verizon Human Resources – Benefits Planning Group, a department of Verizon Services Corp. The costs for these plans were allocated to the participating affiliates based on factors such as relative employment of the entities, relative payroll of the entities, and historical costs.
 13. We obtained a listing and amounts charged for services by month by each of the two central services organizations to VADI from June 30, 2000 through December 31, 2000. The central service organizations are Verizon Services Corp. (VSC) and Verizon Services Group (VSG). For a sample of 10 transactions selected by the Specified Users, we obtained the related allocation reports and intercompany payment reports, which indicated that VADI was billed and paid for these transactions.

We noted that for the amounts paid under the cash settlement process for two transactions selected by the Specified Users, the amount billed to VADI did not agree to the amount settled via VSC's cash settlement process. These transactions were for "Executive and Planning" in the amount of ****proprietary**** and "Other" in the amount of ****proprietary**** for July 2000. Management indicated that the allocation included a charge paid in a previous month and, therefore, the charge was deducted from the amount settled in this month.

We obtained a listing and amounts charged for services by month by the two central services organizations, Verizon Services Corp. and Verizon Services Group, to VSSI from June 30, 2000 through December 31, 2000. For a sample of five transactions selected by the Specified Users, we obtained the related allocation reports and settlement reports, which indicated that VSSI was billed and paid for these transactions.

The Company utilizes a cost allocation system that is based on direct assignment for those costs that can be directly attributed to the entity receiving the services. Where costs cannot be directly assigned, the allocation is based on an indirect cost causative principle. The services rendered by VSG and VSC to VADI and VSSI are priced using a FDC methodology.

14. We obtained the balance sheets and the detailed listings of fixed assets for the separate Advanced Services affiliates as of December 31, 2000. We performed the procedures indicated in Objective 1, Procedure 5.

For items purchased or transferred from the ILECs during the Engagement Period, we obtained the net book cost and fair market value. We inquired of management and management indicated that fair market value was determined by an appraisal performed by an unaffiliated entity. We inspected these transactions to determine whether they were recorded in the books of the ILECs at the higher of FMV or net book cost and noted the following:

- For 19,584 of 19,680 transactions, we determined that they were recorded in the books of the ILECs at the higher of FMV or net book cost.
- For 96 of 19,680 transactions, management was unable to provide the FMV for the fixed assets. The assets were recorded at net book cost. Management indicated that the FMV studies will be performed and true-ups would be made at that time, if necessary.

For items purchased or transferred from another affiliate during the Engagement Period, management indicated that they were not originally transferred from the ILECs to another affiliate.

For those items purchased or transferred from the ILECs, either directly or through another affiliate, during the Engagement Period, we inquired of management and management indicated that as per the merger conditions, the ILECs are allowed to transfer or sell to VADI and VADI-VA, on an exclusive basis, any Advanced Services Equipment including supporting facilities and personnel from June 30, 2000 to December 27, 2000.

We inquired of management and management indicated that VSSI did not purchase and was not the transferee of any fixed assets during the Engagement Period.

15. Where services were priced pursuant to Section 252(e) or pursuant to a statement of generally available terms following Section 252(f), for a sample of services, we compared the price the ILECs charged VADI, VADI-VA, and VSSI to the stated price in the interconnection agreement or related tariff and documented the difference.

For VADI and VADI-VA, we obtained from Management a list of invoices priced pursuant to Sections 252(e) and 252(f). We randomly selected ten invoices, and for each invoice, we randomly selected three billed items for a total sample size of 30. Management provided customer service record (CSRs) printouts from the Carrier Access Billing System (CABS) for the 30 sampled billed items. We compared the price the ILECs charges VADI and VADI-VA for the selected services on each CSR to the stated price in the interconnection agreements or related tariffs, and noted no differences.

Management indicated line sharing was a UNE also provided to VADI by the ILEC during the Engagement Period. Although line sharing charges were incurred, the charges were not invoiced during the Engagement Period and therefore was not included in the population for testing. Management indicated line sharing from July 1, 2000 to December 31, 2000 was billed manually in the April 2001 invoice. We obtained from management the manual invoice for this retroactive billing record and the underlying support for these amounts.

For VSSI, using the five invoices selected by the Specified Users, we randomly selected three billed items from each invoice for a total sample size of 15. We obtained from management the components of the selected billed items and compared the price the ILECs charged VSSI to the stated price in the interconnection agreements or related tariffs and noted the following:

- For 9 of 14 billed items, we compared the price of the components' the ILECs charged VSSI to the stated price in the interconnection agreements or related tariffs with no exceptions.
- For 5 of 14 billed items, we did not obtain the related tariffs for some of the components of the billed items.
- For one billed item, we did not obtain the related tariff to compare the price the ILECs charged VSSI.

16. We inquired of management as to whether any part of the ILECs' Official Services Network was transferred or sold to VADI or VADI-VA. Management indicated that no part of the ILECs' Official Services Network was transferred to VADI. However, management indicated that certain customer premise equipment ("CPE"), consisting of computer servers and routers, located in advanced services operations centers, were transferred to VADI when the management of these centers transferred to VADI. The CPE was connected to VADI's remote advanced services equipment using circuits VADI purchased from the ILECs and other inter-exchange carriers. VADI used this CPE to manage and support advanced services equipment that was transferred to VADI by the ILECs.

We inquired of management and management indicated that no part of the ILECs' Official Services Network was transferred or sold to VSSI.

17. We inquired of management and management indicated that fixed assets were transferred from the ILECs to VADI and VADI-VA. We inquired of management whether the following adjustments were made to the interstate price cap indices: (i) the rate base was reduced by the net book cost of the assets sold or transferred, (ii) the revenue requirement was adjusted to reflect the gain from the sale or transfer of the assets, and (iii) the revenue requirement was adjusted permanently to reflect the reduced operating costs related to the assets sold or transferred. Management indicated that the price cap indices were not reduced for the following: The price cap rules do not require that Verizon reduce price cap indices for asset transfers to affiliates. Paragraph 265 of the Report and Order in CC Docket 96-150 refers to the reallocation of costs between an ILEC's own, in-house regulated and nonregulated activities, not to transactions between affiliates. Section 61.45(d) lists the exogenous cost changes that are permitted under price caps. Section 61.45(d)(1)(v) provides that exogenous cost

changes include the reallocation of investment from regulated to nonregulated activities pursuant to Section 64.901. Section 64.92 makes it clear that transactions between affiliates (such as transactions between the Verizon ILEC and the separate Advanced Services affiliate) are governed by Section 32.27, not Section 64.901. Section 32.27 establishes the pricing rules for asset transfers between an ILEC and its affiliates, but it does not require a price cap change, and Section 61.45 does not treat such transactions as appropriate for exogenous cost treatment. The VADI services (Frame Relay, ATM, SMDS, DSL) became effective after price cap regulations, so they were not part of the basis for the original price cap indices. The VADI services did not change the Price Cap Indices when they were brought into Price Caps. They only increased revenues. They were removed in the same fashion. There was no Price Cap change, just a decrease in revenues.

We inquired of management and management indicated that VSSI did not purchase and was not the transferee of any facilities from the ILECs during the Engagement Period.

18. We inquired and documented that joint marketing occurred between VADI and VADI-VA and the ILECs for the following products: Digital Subscriber Line (“DSL”), Asynchronous Transfer Mode (“ATM”), Frame Relay, CyberWAN, HIBAC, Multi-Media Data Service, Transparent LAN Service, and Switched Multi-Megabit Data Service.

We inquired of management and management indicated that the manner in which Verizon ILEC employees performed joint marketing services included the following:

- Negotiated the sale of products
- Gathered the customer requirements including validation of customer access service requests
- Provided tentative service dates
- Received pricing information from VADI and communicated such information to customers
- Obtained Firm Order Completion dates from VADI and communicated such dates to customers
- Obtained order status information from VADI
- Communicated escalation requests to VADI
- Received order completion information from VADI

Management indicated that systems used by VADI for joint marketing included RxOrder, BAAIS (provisioning system), Supplier Gateway, ARBOR (billing system), and RxFlow. VADI interfaced with the ILEC in the same manner as unaffiliated entities through a web Graphical User Interface (“GUI”), Electronic Data Interface (“EDI”), and Common Object Request Broker Architecture (“CORBA”).

Management indicated that Verizon did not receive the necessary regulatory approvals in California and Hawaii to provide Advanced Services through a separate affiliate as of December 27, 2000. As a result, management indicated that certain VADI employees in Verizon West had access to both VADI and ILEC ordering systems. These employees were trained to use the ILECs’ systems only for customer orders from California and Hawaii. Management indicated that subsequent to December 31, 2000, certain VADI employees accessed ILEC legacy systems to obtain customer information in states other than California and Hawaii. Management indicated that they have not determined whether VADI employees accessed the ILEC legacy systems from December 27, 2000 to December 31, 2000.

We inquired of management and management indicated that loop qualification information was made available to ILEC representatives. Management indicated that under the joint marketing agreements between VADI and VADI-VA and the ILECs, the ILEC representatives acting on behalf of VADI

accessed loop qualification information through the same ILEC interfaces and associated processes that were made available by the ILEC to other unaffiliated carriers on a non-discriminatory basis.

We inquired of management and noted the procedures that were followed by the ILECs to bill VADI and VADI-VA for joint marketing services rendered in Verizon West. The Affiliate Transaction Group used two methods for billing - Intercompany Miscellaneous Billing Request ("IMBR") and the Accounts Receivable Module in SAP:

- The IMBR was used to document all the accounting information and was sent to the appropriate finance personnel in both companies. The information was then uploaded to SAP and used to create journal entries. At the end of the month, the payables and receivables were settled through the intercompany settlement process.
- Within SAP, the information was transferred to the Accounts Receivable module, which recorded the journal entries.

We inquired of management and noted the procedures that were followed by the ILECs to bill VADI and VADI-VA for joint marketing services rendered in Verizon East. Management indicated that for Verizon East, the finance support team bills for joint marketing services by:

- Collecting the billed items from the organization providing the service or the system containing the data
- Preparing a request for billing form with the appropriate accounting information, and forwarding the information to Special Projects Billing. Special Projects Billing /Affiliate Billing records the accounting information on the ILEC books of account and generates the invoice/billing to VADI and VADI-VA.

We inquired of management regarding the controls in place to ensure that the joint marketing costs are fully recovered by the ILECs. Management indicated that joint marketing for VADI and VADI-VA was priced pursuant to CC Docket 96-150. Joint marketing services are included in the Cost Allocation Manual, which is subject to separate audit requirements.

We obtained the amounts billed by the ILECs to VADI and VADI-VA for joint marketing services by month during the Engagement Period. We randomly selected September 2000 and December 2000 and obtained invoices and compared the amounts per the invoices to the related Joint Marketing Agreement and detailed unit reports. The detailed unit reports display how the ILECs track and calculate the amounts to be billed to the separate Advanced Services affiliates for joint marketing. We noted the following:

- For one invoice, we noted the units of frame relay were ****proprietary**** units as compared to ****proprietary**** units on the unit report resulting in a difference of ****proprietary**** units. This difference resulted in an impact of ****proprietary****. Management indicated that this difference of ****proprietary**** units was billed in May 2001.
- For one invoice, we noted the unit price for one service was ****proprietary**** as compared to the unit price of ****proprietary**** for that service in the related joint marketing agreement resulting in a difference of ****proprietary****. This difference resulted in an impact of ****proprietary**** in the month of December 2000. For this month, management indicated that this difference of ****proprietary**** was billed in May 2001.
- For the selected months, we inspected the VADI check register and noted the payment of the selected joint marketing invoices were included in the check register.

For the selected months, we inspected the VADI check register and noted the payment of the selected joint marketing invoices were included in the check register.

We inspected Verizon's website, www.banetworkdat.com/regrequirements.html, and noted that joint marketing was posted to the web site as an affiliate transaction.

We inquired and documented that joint marketing is occurring between VSSI and the ILECs. We noted that VSSI and the ILECs engaged in joint marketing for the following products: frame relay, private line, and ATM.

We inquired of management and management indicated that the manner in which the ILEC employees performed joint marketing services for VSSI included the following:

- The ILEC Corporate Account Managers received orders from the customers and forwarded such orders to the VSSI Document Compliance Group.
- The orders were entered into the VSSI NOMES (data circuits system) and BOBCO (billing system).

We inquired of management which interfaces were used to provide the services, what type of information was made available to ILEC representatives, and whether VSSI and unaffiliated providers of Advanced Services had access after December 27, 2000 through the same interfaces that were made available to the ILECs to the same customer specific information for pre-ordering and ordering, other than credit history, that was made available to the ILECs for joint marketing. The ILECs did not market local advanced services during the Engagement Period on behalf of VSSI.

We inquired of management and noted the procedures that were followed by the ILEC to bill VSSI for joint marketing services rendered. The Affiliate Transaction Group used two methods for billing - IMBR and the Accounts Receivable Module in SAP:

- The IMBR was used to document all the accounting information and was sent to the appropriate finance personnel in both companies. The information was then uploaded to SAP and used to create journal entries. At the end of the month, the payables and receivables were settled through the intercompany settlement process.
- Within SAP, the information was transferred to the Accounts Receivable module, which recorded the journal entries.

We inquired of management regarding the controls in place to ensure that the joint marketing costs are fully recovered by the ILECs. Management indicated that joint marketing for VSSI was priced pursuant to CC Docket 96-150. Joint marketing services are included in the Cost Allocation Manual, which is subject to separate audit requirements.

We obtained the amounts billed by the ILECs to VSSI for joint marketing services by month during the Engagement Period. We randomly selected September 2000 and December 2000 and obtained invoices and compared the amounts per the invoices to the related Joint Marketing Agreement and detailed unit reports. The detailed unit reports display how the ILECs track and calculate the amounts to be billed to the separate Advanced Services affiliates for joint marketing. No discrepancies were noted.

For the selected months, we compared the selected joint marketing invoices to the IMBR and noted the invoices were included in the IMBR. We obtained the monthly intercompany cash settlement journal entries and noted the IMBR was included.

We inspected Verizon's Internet web site, www.gte.com/AboutGTE/272s.html, and noted that joint marketing was posted to the web site as an affiliate transaction.

Objective VII: Determine whether the ILECs discriminated between the separate Advanced Services affiliates and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

1. We obtained the ILECs' written procurement procedures, practices, and policies for services and goods provided by the separate Advanced Services affiliates. We noted no stated purchasing preferences contained in the ILECs' procedures. We obtained and documented the details of the ILECs' bidding process, the selection process, and the methodology by which the ILECs disseminated requests for proposals to affiliates and third parties. The following processes are summarized from Verizon's Sourcing Policy and Procedures obtained from the Company's website at http://baims.bell-atl.com/network.corp_sourc/spp/index.htm:

The sourcing process may be initiated in any of the following ways: 1) internal customers approach Corporate Sourcing (the department within the ILECs responsible for the procurement process) with a procurement need, 2) Corporate Sourcing begins an initiative when an existing contract is expiring, or 3) a technology group begins an evaluation of new technology or service. As the process evolves, Corporate Sourcing forms a Cross Functional Team ("CFT") made up of individuals representing the organizations impacted by the product or service to be procured. The purpose of the CFT is to provide the expertise needed to ensure the quality, accuracy, and integrity of the process used to select the suppliers and to allow the ILEC to obtain the best overall value in the product or service procured. Corporate Sourcing and the CFT then work together to develop the Request for Proposal ("RFP"), detailing contract terms and conditions that will apply. Upon completion of the RFP, the CFT and Corporate Sourcing form a list of potential suppliers, and the RFP is then distributed to these suppliers. RFP responses from suppliers are received and reviewed by Corporate Sourcing and the CFT, and negotiations are held with the most qualified suppliers. The CFT and Corporate Sourcing consider cost, quality, service, and technology when selecting a supplier. Based on those qualities, the selected supplier is awarded the contract.

2. We inquired of management and documented the process that a separate Advanced Services affiliate followed to request a service under an interconnection agreement, a service under tariff, and a service offered by written agreement from the ILECs. We inquired of management and documented that the separate Advanced Services affiliates did not request services directly from the ILEC business unit that provided the service. Management indicated that the separate Advanced Service affiliates obtained information about services through the Verizon East Wholesale Source website, www.bell-atl.com/wholesale/html/handbooks/clec, and through the Verizon West Communications Customer Support website, http://128.11.40.241/clec_guide/master.htm. Depending on the location and the type of request, the separate Advanced Services affiliates submitted requests using one of the following methods: 1) through an EDI, 2) through a Verizon Wholesale Systems Web GUI, or 3) on the standard Local Service Request ("LSR") form.

We documented that the ILECs and separate Advanced Services affiliates execute contracts that serve as the proper approval to request services from the ILECs. The process to execute a contract begins by determining the type of contract to be formed, providing a description of the product or service to be performed, and noting the terms of the contract. The ILECs then determine that the contract is in compliance with pricing and affiliate transaction rules. After contract negotiations are complete, the ILECs must obtain legal approval and signatures necessary to execute the contracts.

3. We inquired of the ILECs' management and documented the process that an unaffiliated entity followed to request a service under an interconnection agreement, a service under tariff, and a service offered by written agreement from the ILECs. We inquired of the ILECs' management and documented that the unaffiliated entities did not request services directly from the ILEC business unit